

Kentucky Historic Preservation Tax Credit

Frequently Asked Questions

➤ **What is a tax credit?**

A tax credit lowers the tax owed by an individual. A tax credit differs from a tax deduction in that an income tax deduction lowers the amount of income subject to taxation, while a tax credit is a dollar-for-dollar reduction in income tax liability. In other words, a tax credit of one dollar reduces the amount of income tax owed by one dollar.

Taxpayers are urged to seek the advice of a qualified tax professional before proceeding with any tax credit rehabilitation project.

➤ **What are key points of the Kentucky Historic Preservation Tax Credit?**

- 30% of qualified rehabilitation expenses is offered as a state tax credit for **owner-occupied residential properties**. A minimum investment of \$20,000 is required, with the total credit not to exceed \$60,000
- 20% of qualified rehabilitation expenses is available for **all other properties**, requiring a minimum investment of \$20,000 or the adjusted basis, whichever is greater. “Other” properties include commercial and industrial buildings, income-producing properties, historic landscapes and properties owned by governments and non-profit organizations
- Those eligible to apply for the credit include:
 - ✓ Individuals
 - ✓ Businesses
 - ✓ Non-profit organizations
 - ✓ Governments
 - ✓ A “first purchaser” of a principal residence following rehabilitation

Currently the amount of historic preservation tax credits allowed for all taxpayers for each calendar year is \$3 million. If that limit is exceeded by approved projects, an apportionment formula will be applied to determine the amount of the credit that will be awarded per project. As a result, the final credit awarded to each project may be less than the entire percentage for which the project is eligible.

➤ **What buildings qualify?**

Kentucky historic preservation tax credits are available for buildings listed in the National Register of Historic Places or located within a historic district listed in the National Register and certified by the Kentucky Heritage Council as contributing to the historic significance of the National Register district.

➤ **What is the National Register of Historic Places?**

Administered by the National Park Service, an agency of the U.S. Department of the Interior, the National Register of Historic Places officially recognizes a property's archeological, architectural or historical significance and provides a measure of protection against adverse impacts from federally funded projects. National Register listing can be applied to buildings,

objects, structures, districts and archaeological resources that are significant in architecture, engineering, American history or culture, and that possess special roles in the development of our country. The status does not affect property ownership rights

For more information about the National Register in Kentucky, see page 4 of this guide or www.heritage.ky.gov/national_register.htm

➤ **What work qualifies for the credit?**

A building must be rehabilitated according to standards set by the Secretary of the United States Department of the Interior. Compliance with the *Secretary of the Interior's Standards for Rehabilitation* must be certified by the Kentucky Heritage Council. For more information and a copy of these standards, visit <http://www.cr.nps.gov/hps/tps/tax/rhb/index.htm>

The standards are intended to provide guidance to historic building owners and building managers, preservation consultants, architects, contractors and project reviewers prior to rehabilitation. According to these standards, “rehabilitation” is “the process of returning a property to a state of utility, through repair or alteration, which makes possible an efficient contemporary use while preserving those portions and features of the property which are significant to its historic, architectural and cultural values.”

For example :

- Most properties change over time; those changes that have acquired historic significance in their own right shall be retained and preserved
- Distinctive features, finishes and construction techniques or examples of craftsmanship that characterize a property shall be preserved
- Deteriorated features shall be repaired rather than replaced

The Kentucky Heritage Council must certify all rehabilitation project plans as well as the amount of the credit, including any amendments, before a tax credit will be approved.

➤ **How do I meet rehabilitation expenses?**

Within a consecutive 24-month period, rehabilitation expenses for owner-occupied buildings must exceed \$20,000. Rehabilitation expenses for commercial or other property must be \$20,000 or the adjusted basis of the structure, whichever is greater.

There is no allowance in Kentucky for “phased projects” longer than 24 months, so each rehabilitation project submitted for a tax credit should be self-contained within a two-year period.

➤ **How does the state tax credit differ from the federal rehabilitation credit?**

In addition to the new Kentucky Historic Preservation Tax Credit, the Kentucky Heritage Council also administers the Federal Historic Rehabilitation Tax Credit in Kentucky. This program of the National Park Service offers a federal tax credit of up to 20% for certified rehabilitation expenses for **income-producing properties listed in or eligible for** the National Register.

Owner-occupied residences are not eligible for the federal tax credit. However, federal and state

rehabilitation tax credits can be used in combination for the rehabilitation of commercial or income-producing properties.

In 2004, Kentucky ranked 9th in the number of rehabilitation projects approved for the federal rehabilitation tax credit, with a total of 30, and 11th in the number of certified projects completed, a total of 21 in a tie with Vermont. For more information about the Federal Historic Rehabilitation Tax Credit, see http://www.heritage.ky.gov/tax_credit.htm

➤ **What is the process for applying for the tax credit?**

The Kentucky Heritage Council reviews all tax credit projects for eligibility and should be consulted regularly to ensure that the proper standards are followed throughout the rehabilitation process.

Applying for the credit is a three-part process:

PART 1 is the preliminary application, **Evaluation of National Register Status**, to determine if the proposed property is historic and listed in the National Register or in a National Register district.

PART 2 is the **Description of Rehabilitation** application, which outlines in detail the proposed rehabilitation work.

PART 3 is the **Request for Certification of Completed Work** form, submitted once the rehabilitation work is completed.

Parts 1 and 2, the preliminary application and the description of proposed rehabilitation, may be submitted simultaneously. However, **any work done prior to certification of these applications by the Heritage Council is done at the applicant's own risk, and may result in disqualification of the project.**

Photographic documentation of the project prior to rehabilitation and at each phase of the certification process is required.

Guidelines for the new Kentucky Historic Preservation Tax Credit are modeled on the Federal Historic Rehabilitation Tax Credit program. **If a federal tax credit is also being sought, the appropriate corresponding federal tax credit forms should be attached to the state forms.** This will avoid substantial delays in approving rehabilitation projects.

More detailed information about each part of this process is listed on pages 5 to 11 of this guide.

➤ **When can I claim the credit?**

Applications for Part 1 and Part 2 tax credit certification may be submitted at any time during the year. Part 3 – Request for Certification of Completed Work **must be submitted to the Kentucky Heritage Council no later than January 30 of the calendar year following completion of the work.** By March 31 the Heritage Council will make a determination of the amount of credit approved for each taxpayer and notify the taxpayer and the Department of Revenue of the approved credit amount.

The apportionment formula will be applied if the total amount of approved credits exceeds the \$3 million cap.